



CITY OF HOUSTON

Finance Department

Interoffice

Correspondence

A handwritten signature in cursive script that reads "Michelle Mitchell".

To: Budget and Fiscal Affairs Committee

From: Michelle Mitchell, Director
Finance Department

Date: April 25, 2008

Subject: TRANS Series 2008

Each year the City sells Tax and Revenue Anticipation Notes (TRANS) to help manage working capital needs during the year. This need for working capital is caused by the timing difference between the collection of revenues versus expenditures. The major revenue source for the General Fund is ad valorem taxes, which are largely collected during January and February. Consequently, a temporary cash shortfall occurs during the fiscal year because of these timing issues, and reaches its maximum just prior to the start of ad valorem tax receipts in late December, January, and February. The TRANS provides an efficient, cost effective way to address the temporary cash shortfall. The actual sale of the notes is done on a competitive basis through an electronic auction intended to give the City access to a large scope of potential purchasers and provides very efficient pricing.

Historically, the TRANS are structured to potentially allow two issuances, separated in time, which enables the City to comply with tax laws and arbitrage regulations. The first, and largest borrowing, is based on an estimated monthly cash flow analysis prepared prior to the beginning of the fiscal year, which projects the cash flows (and predicts the maximum shortfall) during the fiscal year. The first TRANS issue is sized conservatively because it is based on an early estimate of cash flows. The second is a supplemental borrowing of a smaller amount, for a shorter period of time and issued closer to the time the maximum shortfall of cash occurs. This supplemental borrowing is only issued if actual cash flows during the fiscal year require it, and has not been utilized in the past 4 years.

For FY2009, the TRANS primary borrowing in July 2008 will be \$75 to 110 million, which represents a decrease from last year's \$115 million. The total authorized size (primary and supplemental) of the TRANS will be \$175 million, which is a decrease from last year's total of \$200 million.

To complete this transaction, an RCA will be presented to City Council in mid May 2008 for authorization of the sale, and approval of the Preliminary Official Statement (POS), Notice of Sale, and distribution of the POS. On June 18, 2008 the competitive auction will occur and the results will be presented to City Council for a motion to accept the lowest, winning bid or bids.

Recommendation

The Finance Working Group recommends that the City proceed with this transaction.